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Reviewing part III expenditure plans
using analytical review.

(Discussion paper no. 49)

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Office of the
Auditor General
of Canada



Bureau du
vérificateur général
du Canada

DISCUSSION PAPER No. 49

REVIEWING PART III EXPENDITURE
PLANS USING ANALYTICAL REVIEW

by

J. Lamb and A. Tennenhouse

May 1985

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Reviewing Part III Expenditure Plans Using Analytical Review

Background

Revisions to the Estimates were undertaken as a result of the implementation of the Policy and Expenditure Management System and in response to specific recommendations by the Auditor General, the Lambert Commission and the Public Accounts Committee. These revisions were directed toward improving the Government's accountability to Parliament by providing more and better information on government programs, thereby permitting parliamentarians to carry out more effectively their reviews of expenditures.

There are now three parts to the Estimates:

- Part I The Government Expenditure Plan
- Part II Main Estimates
- Part III Departmental Expenditure Plans

For all programs of each department, the Part III Departmental Expenditure Plans provide details of planned and actual results, related expenditures, other performance data useful in justifying resource requirements and sufficient background information to provide a basic understanding of each program.

Our interest in the Part IIIs is twofold. First, the Part IIIs are an excellent source of information. They can be used to improve our understanding of audit entities, their past and forecast expenditures, and to help establish the scope and lines of enquiry of audits carried out under section 7(2) of the Act. Second, in 1982, the Auditor General committed the Office to comment on the integrity of the information contained in Part IIIs. Thus far, because Part IIIs are still being developed, we have taken a cautious approach to this reporting. We have noted only those instances where weaknesses in underlying systems affect the integrity of the respective data.


Treasury Board circular 1982-8 on the "Revisions to the Form of the Estimates" states that although implementation will be phased in over a three-year period to February 1985, as a general rule, departments would not be scheduled for implementation after 1984-85. This schedule was adhered to for practical purposes, since only six new Part IIIs will be tabled in February 1985 and three of these were not required until the new Crown corporations legislation was proclaimed. This will complete the initial tabling of Part IIIs by all departments and agencies which are currently subject to this requirement. The following table provides details of the numbers of Part IIIs tabled by year.

<u>Year</u>	<u>Total Number of Part IIIs Tabled</u>	<u>Increase over Previous Year</u>
1982-83	10	10
1983-84	47	37
1984-85	65	18
1985-86 (i.e., Feb. 1985)	71	6

In October 1983, the Central Agencies group (now referred to as the Federal Government Reporting Group) issued "Guidelines and Programs for the Review of Part IIIs" to assist audit teams in reviewing and reporting on Part IIIs. The underlying premise of the Review Programs was that the Part IIIs should be used to help focus the audit by identifying the potential problem areas associated with each section of the Part III.

Using Analytical Review Techniques

The techniques suggested in 1983 were fairly basic and were directed more to auditors unfamiliar with the entity. The purpose of this paper is to suggest some refinements to the Review Programs using more indepth analytical review techniques now that several successive Part IIIs are becoming available for each entity.



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A recent CICA Research Study defines analytical review as:

- a substantive audit procedure;
- a study and evaluation of the interrelationships between elements of financial and non-financial information;
- a comparison of such relationships and balances with the assessment of expected results; and
- an investigation of significant fluctuations.

The essence of the technique seems to be in making meaningful comparisons. In the case of Part IIIs, these are facilitated by Treasury Board circular (1982-8) which prescribes the structure and outlines minimum requirements for the contents of the Part III. Such standardization permits the comparison of Part IIIs not only across years but also across departments.

In reviewing the Part III for a particular entity, we propose three levels of analytical review:

- knowledgeable auditor;
- three-year review; and
- comparison against models.

Knowledgeable auditor. The Part IIIs contain a wealth of information about an entity. This can be useful to a new team member in learning about the entity. It can also be useful to a knowledgeable auditor in defining or confirming the lines of enquiry. Auditors should be capable of evaluating not only the information that is presented but also the information omitted. In reviewing the Part III, knowledgeable auditors should be able to assess the department's progress toward providing meaningful accountability information. They would also identify

any discrepancies between what is presented in the Part III and their understanding of the entity and its operations.

This can be illustrated with an example from Customs and Excise. The 1982-83 and 1983-84 Part IIIs for Customs and Excise describe the Activity Structure for the Department as having four parts:

- compliance facilitation;
- compliance verification and enforcement;
- dispute settlement; and
- administration.

The Director of the Customs and Excise comprehensive audit was familiar with the Department. He knew that this activity structure did not reflect how the Department was managed. Knowing this he was able to identify particular issues that needed to be examined. These included the integrity of the systems for gathering data by activity, the effectiveness of the planning process and the usefulness of the related performance indicators.

Three-year review. When an expenditure plan is tabled in the third and succeeding years, the department is required to report actual performance. Many departments are now in or are approaching this third year. This situation gives us two advantages. First, we are provided with the department's analytical review of performance against plan. Such analysis in itself can highlight new areas of concern or confirm lines of audit enquiry. In the Customs and Excise situation, the Director's suspicions that the activity structure did not reflect reality were confirmed by departmental officials. In fact, they had already initiated action to change it. Under "Review of the 1982-83 Financial Performance" (1984-85 Part III), the Department writes: "In view of these internal distortions, further analysis of financial performance on an activity basis would be meaningless." In fact, the Department's 1985-86 Part III contains significant improvements.

The second advantage is that, with three expenditure plans, we now have a good basis of financial and non-financial information to perform a thorough analytical review. In Customs and Excise, we approached the review by comparing information over the three years (1982-83, 1983-84 and 1984-85) section by section. The objective was to identify any important changes that have taken place that could affect the audit. Many changes were noted. The most significant was with the "Initiatives" section.

To review the initiatives, we prepared a chart listing all the initiatives for 1982-83, the proposed expenditure by initiative for that year, the expenditure to date and the total project costs. We then updated the information using the 1983-84 and 1984-85 Part IIIs. From this information, we were able to identify the major initiatives the Department was pursuing. We were also able to identify potential problems in the project control systems because of the difficulties we had in tracing an initiative from one year to the next. Although we recognized that priorities might shift from year to year, many of the changes in initiatives and total project costs were not explained. Rather, previous initiatives appeared to "get lost". Furthermore, the basis for presenting financial information did not appear to be consistent from year to year or from project to project. These problems were identified in our preliminary analysis for possible follow-up in the examination phase of the audit.

Comparisons. The third technique of analytical review that can be applied to the Part IIIs is comparison with models. This could include comparing a Part III against Treasury Board instructions, examining other Part IIIs for ideas on how best to present goals, milestones, etc. and seeking expert advice on the quality of particular information.

Comparing the Part III against the Treasury Board Instructions allows the auditor to review them for completeness - to ensure that all the prescribed accountability information is available. As was previously noted, we found in the Customs and Excise case that the review of performance against plans was virtually nonexistent.

Another approach is to compare specific items in the Part III under review with similar items in other Part IIIs. Again in the case of Customs and Excise, we were looking for good examples of clear and specific goals statements, matched by good reviews of recent performance, and performance indicators that were concisely presented and displayed against originally estimated and planned performance. The Correctional Service of Canada Part III contained good examples. These helped us to evaluate the quality of the presentation of corresponding information at Customs and Excise.

Evaluating information. The last step is for audit specialists to evaluate the respective information provided in the Part III. This means that the information on program effectiveness should be reviewed as part of the audit of effectiveness, information on systems improvements should be reviewed by a computer audit specialist, financial information by the attest auditor, and so on. By virtue of their special training, they will have generic models on which to base their review. They should be looking to ensure the information presented is complete (as in the case of the knowledgeable auditor, identify what the department did not say but should have), objective (that graphic displays are fairly depicted and comparisons are reasonable) and accurate (the figures and conclusions agree with supporting documents). Initially, this could be done superficially by reading and evaluating the information presented. However, once specialists have completed their audits, they should review the information again and determine what impact any deficiencies found in the underlying systems would have on the information reported to Parliament in the Part III.

Conclusion

Treasury Board Circular 1982-8 requires that each expenditure plan "provide sufficient information to assist Members of Parliament in understanding and assessing planned and actual program performance, in terms of results and related resources". We, as auditors, should ensure that this information is complete, objective and accurate. The analytical review approach presented in the Guidelines and described here should provide a strong basis for ensuring that parliamentarians are receiving the accountability information they need.

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